PRELIMINARY DOCUMENT

DISCUSSION SERIESVOL. 1
REFORM OF HEALTH FINANCING: POLICY OPTIONS

Convergence towards Universal Coverage

THE FISCAL SPACE FOR HEALTH IN PERU: 2011-2013

PERU
2011

Convergence towards Universal Coverage

THE SPACE FISCAL FOR HEALTH IN PERU: 2011-2013

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Fiscal Space for Health

THE FINANCING GAP FOR HEALTH

At the health sector level

Technical studies based on the analysis of the supply and demand of health services in Peru establish that, in 2009, the gap between required and available resources to meet the health needs of the entire population was 2.1% of GDP. If this gap were to be covered, total health expenditures would rise from 4.9% of GDP currently to 7.0% of GDP, similar to the average for the region.

It should be stressed that increasing financing to this level is a target established by the Political Parties' Agreements on Health subscribed in 2006. Representatives from 13 political parties committed to "raising financing for health over the next five years to meet the national health targets and bringing it closer to the Latin American average as a percentage of GDP."

At the public subsector level

At the same time, the resources required by the public subsector to address its stewardshipfunctions, as well as collective and individual health benefits, are equivalent to 3.3% of GDP, which cannot be covered by the resources assigned to it (2% of GDP). Consequently, the government's effort required to close this financing gap would amount to 1.3% of GDP.

Table I: Per Capita Public Health Expenditure-2006 [1/]

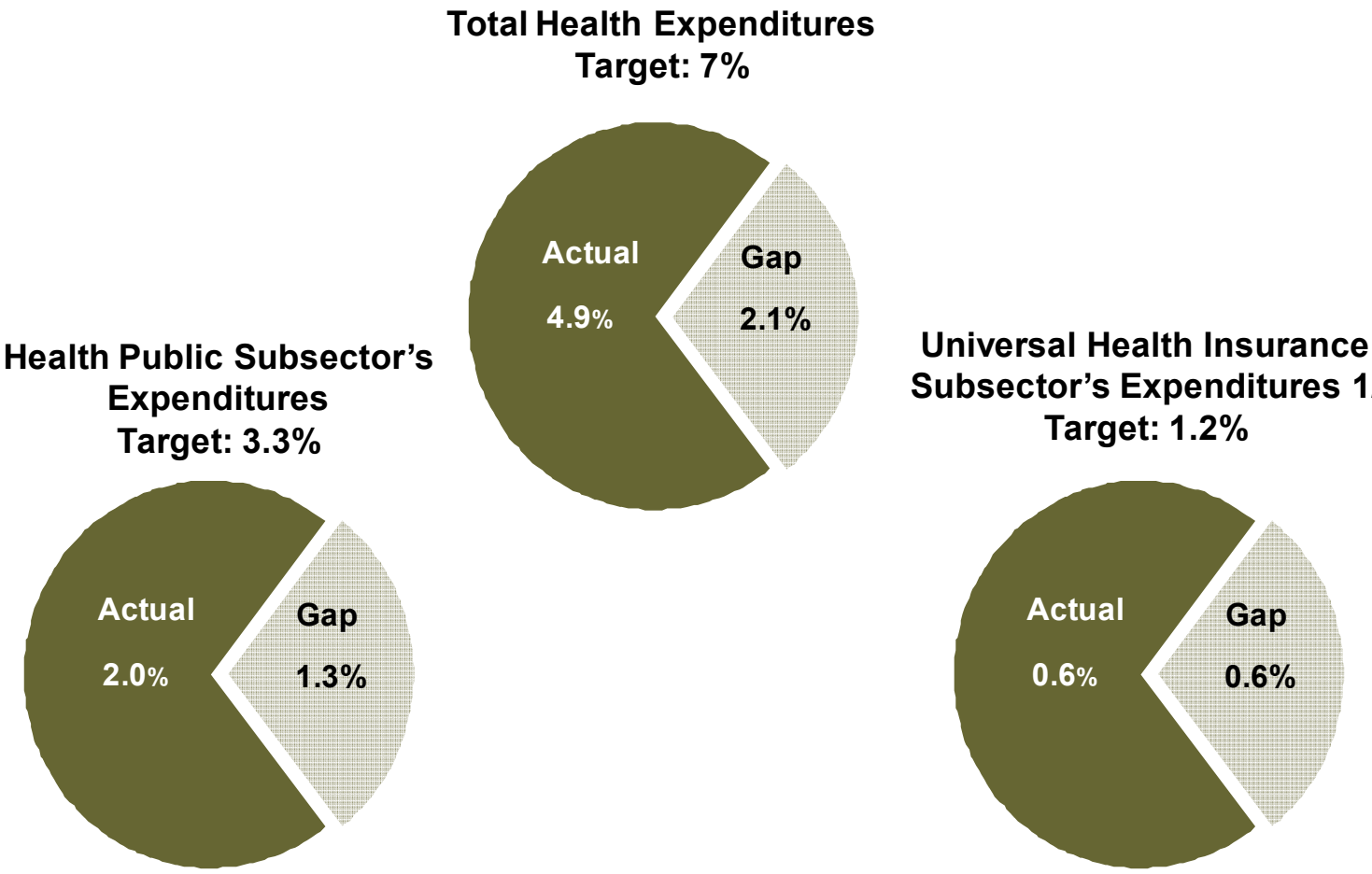
Type of economy	US$	US$ PPP
Low income	23	28
Lower middle income	75	76
Higher middle income	412	419
High income	4,033	2,492
Latin America & the Caribbean	374	330
Peru	**149**	**191**

1/ Includes social security and the public subsector
Source: World Development Indicators 2009

This gap is consistent with the 40% differential between per capita public health expenditures in LAC (US$ 330) and Peru (US$ 191).[1]

[1] Per capita expenditure is expressed in purchasing power parity (PPP) international dollars.

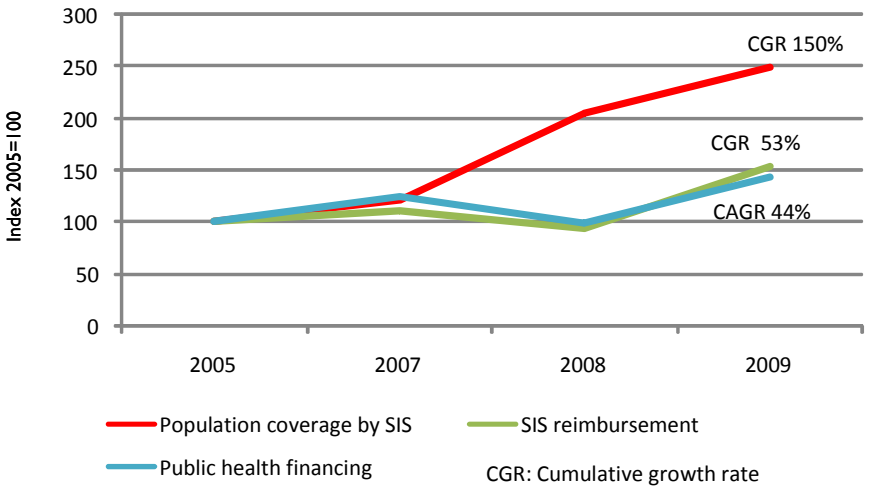
Figure I: Health Financing Gaps-2009
(% of GDP)



For Universal Health Insurance

Finally, regarding universal health insurance, the public subsector requires approximately 1.2% of GDP to cover financially the benefits to the entire population eligible for the subsidized and semi contributory regimes under the Basic Health Insurance Plan (*Plan Esencial de Aseguramiento en Salud*, PEAS). It should be noted that currently 50% of these requirements are covered through funds assigned by the government to the Health Ministry, the Regional Governments, and the Public Health Insurance (*Seguro Integral de Salud*, SIS) to cover the population's individual health needs.

Figure II: Health financing indicators 2005-2009



It is important to mention that this imbalance is creating growing financial disequilibria among public providers, as in the last four years the increase in the number of people joining the SIS (150%) has outpaced the increase in financing of individual health benefits, which has been only 50% (see Figure III).

This chapter will assess if there exists fiscal space to cover in a gradual and sustained manner the public financing gap for health, mainly for universal health insurance, which amounts to 0.6% of GDP (NS/ 3 billion).

FISCAL SPACE FOR HEALTH

Definition

Fiscal space is *the government's capacity to provide resources permanently to finance a given project without affecting medium-term fiscal sustainability*.[2]

[2] Peter Heller (2005), "Understanding Fiscal Space", IMF Policy Discussion Paper 05/4, Washington, DC, International Monetary Fund.

Pillars

Expanding this concept to the field of health services implies verifying if there is a budget margin to close the public health financing gap without affecting macroeconomic stability, i.e., creating pressures to raise the deficit above 1% of GDP (**fiscal rule**).

Several criteria are used to assess the government's ability to create fiscal. Some of these do not rely on the government's own discretionary policies but on the context: domestic and external macroeconomic conditions, conditions prevailing in debt markets, multilateral credit organizations' policies, grants, etc. Others depend on the government's own fiscal policy, e.g., modification of tax rates, improvements in tax administration, reorientation or modification of fiscal expenditures, and/or greater efficiency in the use of public resources

All these factors can contribute partially to create the resources required, as long as sustainability and compliance with fiscal rules (established in Peru's Fiscal Responsibility and Transparency Law, LRTF) are not put at risk. The criteria or pillars used in this document to assess the fiscal space are summarized in Table II:

Table II: Pillars for assessing fiscal space

Pillars	Definition
Macroeconomic conditions	Economic stability and sustained improvement in macroeconomic indicators promote greater fiscal resources and enhance public finances. An additional fiscal space can thus be created to finance projects.
Reallocation of public expenditures	With a given expenditure level, it is possible to create a fiscal space as percent of GDP by reorienting or reallocating existing resources.
Creation of new public resources	Establish new earmarked taxes or eliminate tax expenditures (which erode fiscal revenues).
Public borrowing and foreign grants	Assess the possibility of obtaining foreign loans or grants to finance projects in a sustained manner.
Greater efficiency in the use of fiscal resources	Consider the possibility of improving fiscal productivity via improvements in the use of resources.

According to economic conditions

ASSESSING THE FISCAL SPACE FOR HEALTH IN 2011-2013

The baseline forecast presented in the Ministry of Economy and Finance's Multiannual Macroeconomic Framework (MMF) for 2011-2013 was used to measure the fiscal space in connection with macroeconomic conditions. This forecast considers a **world recovery scenario** and the government's intention to strengthen the fiscal position after the dissaving implemented to face the international crisis. In this context, fiscal policy in 2011-2013 will aim at:

- Securing the deficit's declining trend and achieve surpluses from 2013.
- Preserve a countercyclical fiscal position.
- Restore the fiscal position and safeguard fiscal sustainability to ensure the system's ability to react to adverse events.
- Resume a declining trend for public debt as a percentage of GDP.

The following policies will be adopted:

- Gradual withdrawal of the Economic Stimulus Policy (*Política de EstímuloEconómico*, PEE), which resulted in additional expenditures amounting to 3.5% of GDP in 2009-2010. This decision responds to favorable prospects for world recovery, which make these kinds of incentives unnecessary.
- Compliance with fiscal rules for public consumption.
- Improveoperation of the Fuel Price StabilizationFund (*Fondo de Estabilización de Precios para los Combustibles y Derivados de Petróleo*, FEPC) instead of subsidizing fuel consumption. It should be emphasized that, since its inception, the Fund has absorbed considerable fiscal resources (NS/ 4.5 billion) with a high opportunity cost to the government's social agenda.
- Maintain budget austerity.

In this context, official forecasts contained in the MMF for 2011-2013 suggest that growth will converge gradually towards potential, with price stability and absence of undesired current account pressures.

Table III: Macroeconomic Scenario 2011-2013

Indicators	2009	2010	2011	2012	2013
GDP Growth (Real % Var.)	0.9%	8.0%	5.0%	5.5%	6.0%
Inflation (End of Period)	0.2%	2.5%	2.0%	2.0%	2.0%
Private Investment (Real % Var.)	-15.1%	16.7%	9.4%	11.5%	13.2%
Fiscal Deficit (% of GDP)	-1.9%	-1.5%	-1.0%	-0.4%	0.4%
General Government Current Revenues (% of GDP)	18.6%	19.7%	20.0%	20.2%	20.4%
General Government Nonfinancial Expenditures (% of GDP)	19.6%	19.9%	19.8%	19.4%	18.9%
Current Account (% of GDP)	-0.2%	-1.7%	-1.6%	-2.3%	-3.0%
Public External Debt (% of GDP)	26.6%	22.7%	22.6%	21.4%	20.0%

Sources: BCRP. Inflation Report, September 2010
MEF. Revised Multiannual Macroeconomic Framework, 2011-2013

The current account deficit is forecasted to reach 3 percent of GDP in 2013, mainly due to a surge in imports of capital goods associated with higher private investment.

The public deficit is expected to be below 1 percent of GDP as a result of a reduction in the general government's nonfinancial expenditures and progress in tax administration. The improved fiscal result will have a positive impact on the debt burden, which is expected to decline to 20 percent by2013. In general, the MMF foresees a favorable economic scenario with a prudent fiscal performance.

In view of these medium-term growth prospects, how much fiscal space can be created to close the health public subsector's financing gap? Assuming a public health expenditure-GDP growth elasticity of 1.62, it can be possible to free additional resources of NS/ 225-367 million each year[3]. As a result, the budget margin for the public health subsector could widen gradually to 0.20 percent of GDP (NS/ 931 million) by 2013. At that point this would cover around 15% of the public subsector's financing gap (or 33% of the financing gap for the subsidized and semi contributive regime).[4]

It should be emphasized that the fiscal space created through this source or pillar does not affect the fiscal position, given that it would not result in deficits above 1% of GDP (fiscal rule).

3 The elasticity has been estimated using information for 2006-2008. The years 2009 and 2010 are considered unstable due to the impact of the international crisis and the temporary implementation of the PEE, and therefore have been excluded from the series.

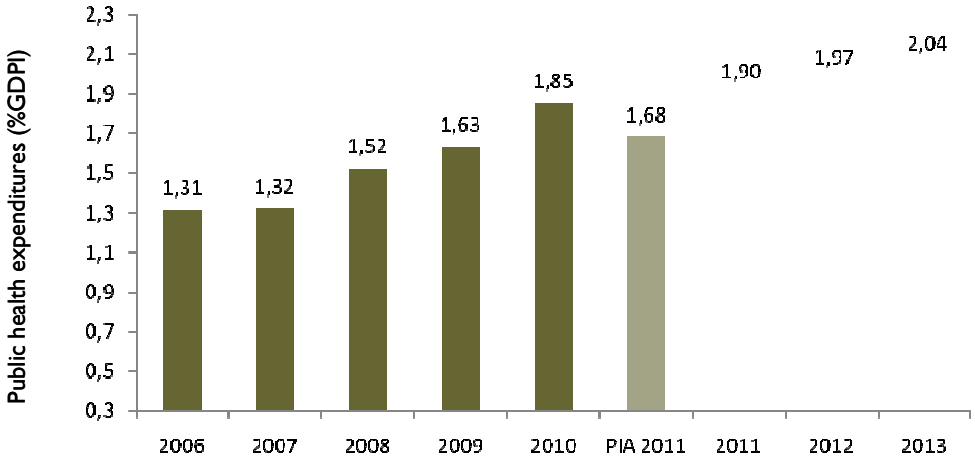
[4] In a pessimistic scenario, where the international crisis rebounds due to fiscal problems in Europe, a weak U.S. economy, or potential financial problems in China, the fiscal space would be expected to contract. In this scenario, the health public subsector's expenditures would expand to up to 0.15 percent of GDP (NS/ 695 million) over 3 years.

Table IV: Fiscal Space Attributable to Favorable Macroeconomic Conditions

Economic Growth Effect	2011	2012	2013	Cumulative
Annual Fiscal Space (% of GDP)	0.06	0.07	0.07	0.20
Annual Fiscal Space (Millions of NS/)	225	339	367	931
Coverage of Public Financing Gap	5%	10%	15%	
Coverage of Universal Health Insurance Financing Gap	8%	22%	33%	
Adjusted Fiscal Deficit	-1.06%	-0.53%	0.20%	
Compliance with Fiscal Rule	Yes	Yes	Yes	

* Own elaboration

Figure III: Expenditure Forecasts for the Health Public Subsector (Considering the Fiscal Space Attributable to Macroeconomic Conditions)
(% GDP)



PIA: Public health budget

Resource reallocation

The potential for financing the health public subsector's gap by shifting fiscal resources in its favor is next examined, especially the impact of releasing resources from the following sources:

- The FEPC
- Tax expenditures.

Considerable resources have been allotted to the FEPC in recent years, up to 0.6 percent of GDP in 2008. As was mentioned before, the FEPC has been losing its role in price stabilization and becoming a consumption subsidy. In this light, the government plans to dismantle it progressively, or at least make it less onerous, which would free resources that could be assigned to enhancing health expenditure.

Table V: FEPC Budget Resources

	2005	2006	2007	2008	2009	E-S 2010
Millions of NS/	180	3	190	2 150	1 100	475
% of GDP	0.1	0.0	0.1	0.6	0.3	0.1

Considering payments in the first half of 2010 and the balance pending for transfer to operators, a fiscal space equivalent to 0.3 percent of GDP could be created.

Alternatively, fiscal space could be generated via elimination of exonerations or subsidies that hamper the government's tax performance.

Tax expenditures —deviations from the general tax system that erode fiscal revenues to serve extra-budgetary objectives— can also be considered for this purpose. Tax expenditures include exonerations, tax reductions, deferral of tax payments, deductions, special credits, etc. In Peru, tax expenditures are used to provide special tax treatment to the Amazon and border areas, financial services, and specific activities such as the fishing and hydrocarbon industries, manufacture, trade, and education, among others.

Figure IV: Distribution of Tax Expenditures by Sector and Modality

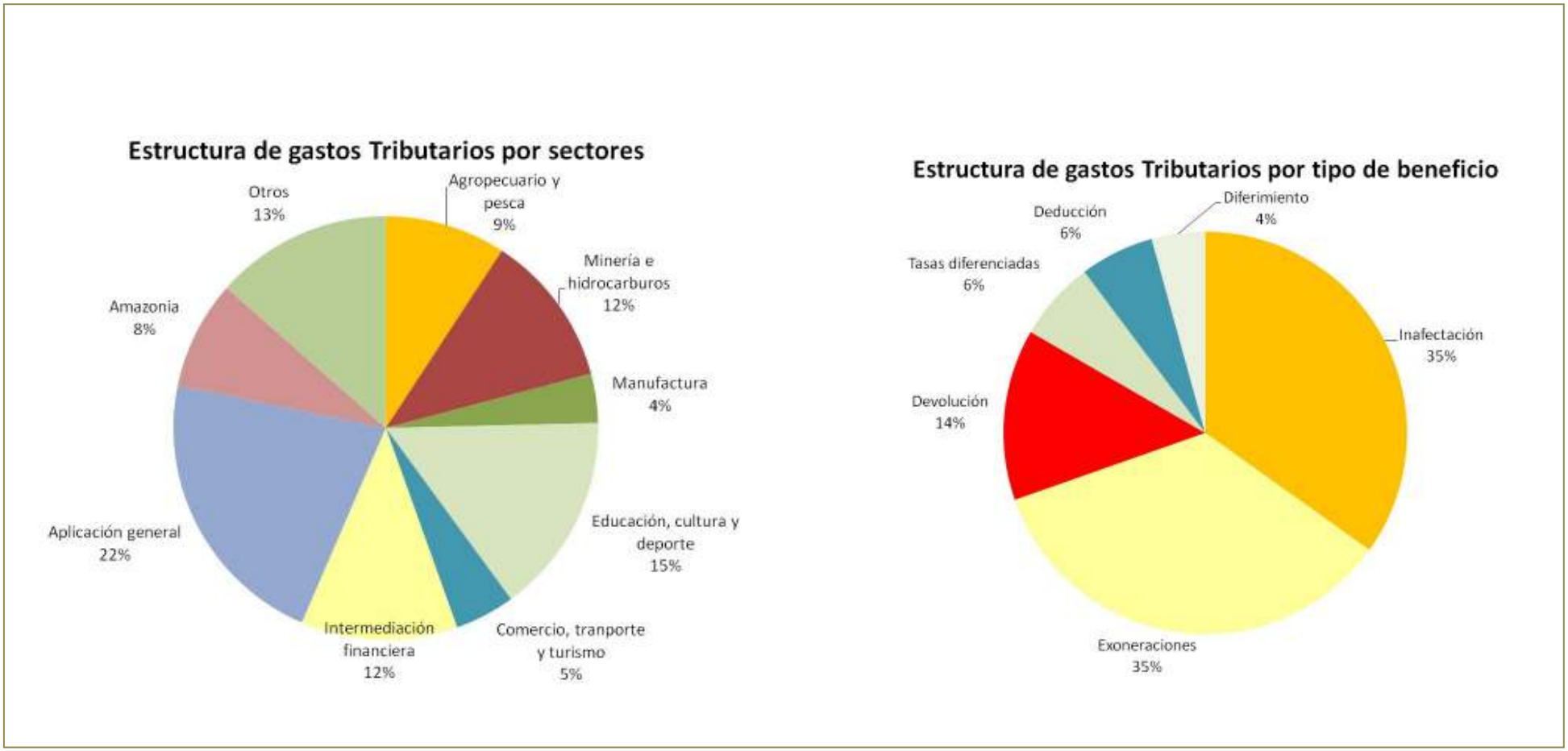


Figure IV shows that most tax expenditures (70%) are in the form of exonerations and exemptions.

Partial or total elimination of these tax expenditures can create additional resources not considered in the MMF's revenue forecast. According to estimations by the Tax Administration Superintendence (*SuperintendenciaNacional de AdministraciónTributaria*, SUNAT), elimination of tax expenditures canrelease resources equivalent to 1.5 percent of GDP[5] to enhance universal insurance. However, based on feasibility considerations and other criteria like the impact on welfare and the potential for fraudulent use, a subset equivalent to 0.6 percent of GDP represents a more realistic option.

Figure IV also suggests that additional fiscal space can be created by eliminating benefits to mining and manufacture, as well as to the Amazon region and others of general application[6]. By modality, the following table suggests that benefit reductions should concentrate on exonerations and devolutions, but should encompass 100% of deferrals and devolutions.

In deciding to eliminate tax expenditures, an assessment needs to be made to establish if the revenue loss from exonerations, exemptions, and credits is offset by the direct expenditures it promotes. Where tax expenditures are assessed not to fulfill the redistribution effects they were intended for, their repeal or dismantling should be envisaged. Compensating the elimination of regional benefits through greater central government transfers may also be considered. These transfers would be earmarked to implement the universal health insurance scheme in those regions. Since several studies point out that the benefits for the Amazon region in particular do not fulfill the objectives they were created for, shifting resources along the lines explained above would result in considerable welfare gains.

[5] The May 2010 MMF indicates that potential tax expenditures in 2011 are equivalent to 2.04 percent of GDP.

[6] Considers financial losses caused by the VAT anticipated recovery regime, the 50% reduction in the drawback benefit, and the exoneration from the income tax for property depreciation, among others.

Table VI: Elimination of Tax Expenditures by Sector

Target Sector	Scenarios for the elimination of tax expenditures				(B)/(A)
	Total (A)		Partial (B)		
	Millions of NS/	% GDP	Millions of NS/	% GDP	
Agriculture & Fishing	618	0.14	112	0.02	18.1
Mining & Hydrocarbons	782	0.17	782	0.17	100.0
Manufacturing	252	0.06	252	0.06	100.0
Education, Culture & Sports	1.030	0.23	49	0.01	4.8
Trade, Transport, & Tourism	307	0.07	96	0.02	31.3
Financial Intermediation	801	0.18	0	0.00	0.0
General Application	1.459	0.32	781	0.17	53.6
Amazon Region	557	0.12	489	0.11	87.8
Other	905	0.20	105	0.02	11.6
Total	6.710	1.49	2.665	0.59	39.7

Source: Multiannual Macroeconomic Framework, May 2010
Own elaboration.

Table VII: Elimination of Tax Expenditures by Type of Benefit

Type of Benefit	Scenarios for the elimination of tax expenditures				(B)/(A)
	Total (A)		Partial (B)		
	Millions of NS/	%GDP	Millions of NS/	%GDP	
Exemptions	2,334	0.52	105	0.02	4.5
Exonerations	2,324	0.52	1,018	0.23	43.8
Refunds	920	0.20	495	0.11	53.7
Differential rates	429	0.10	363	0.08	84.5
Deductions	398	0.09	398	0.09	100.0
Deferrals	286	0.06	286	0.06	100.0
Credits	18	0.00	1	0.00	6.6
Total	6,710	1.49	2,665	0.59	39.7

Source: Multiannual Macroeconomic Framework, May 2010
Own elaboration

Table VIII: Fiscal Space Attributable to Restructuring the Public Budget

Effect from resource allocation	Acum. 2011-2013	
	Minimum (10%)	Maximum (20%)
Complete fiscal space (% of GDP) from:	0.89	
Reduction of tax expenditures	0.59	
FEPC reorientation	0.30	
Fiscal space for health (% of GDP)	0.09	0.18
Fiscal space (Millions of NS/)	436	872
Coverage of public subsector financing gap	7%	14%
Coverage of Universal Health Insurance financing gap	15%	30%
Fiscal deficit adjusted for FEPC (2013)	0. 37%	0.34%
Compliance with Fiscal Rule	Yes	Yes

* Own elaboration

The joint effect of releasing resources from the FEPC and tax expenditures would expand the fiscal space considerably (0.9 percent of GDP). However, these resources are not entirely appropriable by the sector. The resources assigned to the sector will depend on the governments' priorities and the Minister's negotiation capacities. Two scenarios are considered for the analysis:

- **Minimum**, which assumes that the new resources are distributed to the sector in line with its share in the budget. In this scenario, the fiscal space for the health sector would be NS/ 436 (0.09 percent of GDP) by end-2013.These resources would be sufficient to cover 7% of the health public subsector's financing gapand 15% of the financing gap required to implement the universal health insurance scheme.

- **Maximum**, which assumes that 20% of the additional VAT resources collected by SUNAT are assigned to the sector. In this scenario, the fiscal space for the health sector would be NS/ 872 (0.18 percent of GDP) at end-2013. These resources would be sufficient to cover 14% of the health public subsector's financing gap and more than 30% of the financing gap required to implement the universal health insurance scheme.

Two mechanisms to enhance the health sector's financing via the creation of new resources are now assessed:

New Resources

- New taxes on fuel and derivatives, cigarettes, and alcoholic beverages earmarked for the health sector.[7]The following specific policies are proposed:

  - An increase of 0.10 cents per gallon in the excise tax on fuel and derivatives.

  - A one-point increase in the ad-valorem tax on alcoholic beverages (from 27.8% to 28.8%).

  - An increase in the excise tax on cigarettes from NS/ 0.07 to NS/ 0.08 per unit. This would increase collections by NS/ 200 million (0.06 percent of GDP), which would cover only 7% of the financial gap.

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- Social Security solidarity financing, equal to one point of contribution.

[7]Levies on gambling are included within earmarked taxes. This item has not been considered because tax expenditures include VAT exonerations for gambling companies (NS/ 140 million each year).

Table IX: Fiscal Space Attributable to Creation of New Resources

Effect from the creation of new resources	Annual 2011-2013
Fiscal space for health (% of GDP) from:	0.17
Earmarked taxes	0.05
Solidarity contribution	0.12
Fiscal space (Millions of NS/)	843
Earmarked taxes	245
Solidarity contribution	598
Coverage of public financing gap	13.4%
Earmarked taxes	3.9%
Solidarity contribution	9.5%
Effect on fiscal deficit	Neutral

* Own elaboration

The joint effect on the fiscal space of creating earmarked taxes and the Social Security solidarity contribution would be to release resources equivalent to 0.12 percent of GDP (approximately NS/ 840 million) each year, with the latter as main source of revenue. These resources could cover 13% of the public health subsector's financing gap.

A digression: feasibility analysis

It should be noted that financing through earmarked taxes is not allowed under Peru's tax legislation. In this respect, the **National Tax System Law** (*Ley Marco del SistemaTributarioNacional*, *DecretoLegislativo N° 771*) establishes 4 basic types of taxes and eliminates any other tax not specified within the Law.In addition, the concept of Single Treasury Account, on which the **National Treasury System Law** (*Ley General del SistemaNacional de Tesorería, Ley N° 28693)*is based, builds on the principle of a centralized administration of public funds.

This legislation seeks to prevent the creation of new "earmarked or conditional" taxes to finance specific activities.The Ministry of Economy and Finance, which governs Peru's tax policy, has stressed on several occasions that:

"*[…] it is convenient to point out that the Single Treasury Account principle aims to ensure a comprehensive management of the government's financial resources.It is therefore necessary to avoid the creation or expansion of funds or conditional accounts for specific purposes […]*"[8]

These taxes are considered "anti-technical" because they cause efficiency and resource losses, and therefore the current legislation tends to exclude them.

At the same time, the creation of fiscal space through the solidarity contribution mechanism faces legal and technical limitations and therefore cannot be considered a feasible source of funds in the short run.The Constitution states that Social Security resources are intangible, and therefore cannot be used for purposes other than addressing the pension needs of the entitled population.

On the other hand, actuarial assessments of EsSalud's performanceshow that contributions are insufficient to ensure financial equilibrium and recommend that they be raised[9]. From a financial perspective, EsSalud officials would not support this option.

[8] Report N° 329-2006-EF/65.13 (Ministry of Economy and Finance)

[9]Fabio Duran (2005), "Estudio financiero-actuarial y de la gestión de EsSalud: análisis y recomendaciones técnicas", ILO.

Borrowing and grants

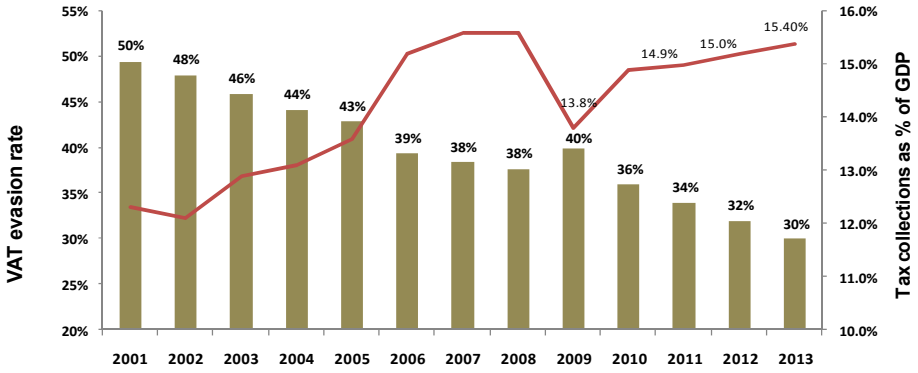
The options of resorting to external financing or grants to create fiscal space for health are unlikely and limited, in view of the government's policies to improve public finances via debt restructuring and gradual reduction of the dependence on external resources to diminish the exchange rate risk. In this respect, as stated in the MMF, the government aims at substantially reducing the foreign debt burden by 2013.

Regarding grants, it is important to emphasize that 90 percent of financing sources for health expenditures are ordinary resources and direct collections. The share of external resources via grants and official credit operations is relatively small relative to other parts of the world, given that Peru is considered an upper middle income country. In this light, the creation of fiscal space via this financing form is unlikely.

Efficiency

The alternative of expanding the fiscal space through efficiency improvements in tax administration (i.e., policies to enhance tax collections) is discussed next. In particular, the impact on the fiscal space of reducing VAT evasion by 2 percent points each is year is considered.As a result of SUNAT's efforts in this field, VAT evasion has diminished from 50% in 2001 to close to 38% in 2008. According to the targets established in SUNAT's Institutional Strategic Plan, it is envisaged to reduce evasion to around 30% during the period of analysis.

Figure V:
Trends for VAT collections as % of GDP and evasion rate



In line with the MMF, SUNAT plans to implement the following strategies to meet its targets:

- **Monitoring**, based on the segmentation of taxpayers according to their size:
  - Monitoring of large companies will be made through highly specialized auditors, who will focus on companies with high turnover and complexity and will make intensive use of external information sources. Certain sectors like mining, banks, the hydrocarbon industry, and telecommunications, will be emphasized.

- Monitoring of micro and medium enterprises will focus on fast, massive high-impact operations aimed at raising the risk of evasion. The focus will be on high-evasion sectors like services, manufacturing, construction, and mining.

- Monitoring of individuals will aim at independent professionals and earners of property rents and capital gains.

☐ **Tax debt recovery and collection**. It will focus on enhancing the recovery mechanisms already in place. It is envisaged to expand collections through large private and government buyers; improve the withholding system; increase the use of toll booths; intensify seizure operations against debtors and evaders; and speed up administrative claims to limit dilatory tactics.

☐ **Strategy to facilitate payment of tax liabilities**. SUNAT will seek to accelerate procedures and payments and save mobility costs through greater use of the internet;enhance taxpayer outreach by expanding attention channels nationwide; simplify procedures; and develop taxpayer training campaigns.

☐ **Strategy against undervaluation and smuggling**. The strategy will seek to enhance cross-checking using new price data to improve detection of customs fraud; enrich information through new data exchange agreements with Peru's main trade partners; and enhance control on highways, shopping malls, and retail stores.

Efficiency improvements in tax administration create a significant fiscal space of around 1.9 percent of GDP. However, these resources are not entirely appropriable by the sector. The resources assigned to the sector will depend on the government's priorities and the Minister's negotiation capacities.

As in the case of the pillar associated with the restructuring of the public budget, two scenarios are considered:

☐ **Minimum**, which assumes that the new resources are distributed to the sector in line with its share in the budget. In this scenario, the fiscal space for the health sector would be NS/ 737 (0.19 percent of GDP) by end-2013.These resources would be sufficient to cover 12% of the health public subsector's financing gapand 25% of the financing gap required to implement the universal health insurance scheme.

☐ **Maximum**, which assumes that 20% of the additional VAT resources collected by SUNAT are assigned to the sector. In this scenario, the fiscal space for the health sector would be NS/ 1 475 (0.37 percent of GDP) by end-2013. These resources would be sufficient to cover 23% of the health public subsector's financing gap and more than 50% of the financing gap required to implement the universal health insurance scheme.

Table X: Fiscal space attributable to efficiency improvements in tax administration

Effect from efficiency improvements	Acum. 2011-2013	
	Minimum (10%)	Maximum (20%)
Complete fiscal space (% of GDP)	1.86	
Fiscal space for health (% of GDP)	0.19	0.37
Fiscal space (Millions of NS/)	737	1 475
Coverage of public subsector financing gap	12%	23%
Coverage of Univesal Health Insurance financing gap	25%	51%
Effect on fiscal deficit	Neutral	Neutral

* Own elaboration

THE FISCAL SPACE FOR HEALTH AND THE FISCAL RULE

The partial analysis of fiscal space sources or pillars suggests that **there are potential fiscal resources that could be created or released to cover the sector's financial gap**. Considering the sources with greater technical and political feasibility —like the pillars associated with macroeconomic conditions, restructuring, and efficiency improvements—, by end-2013 the health sector could obtainadditional resources between NS/ 2,104 million (minimum scenario) and 3,271 million (maximumscenario). These accumulated resources would allow the sector to cover between 33%and 52% of the financing gap for the health public subsector. At the same time, the budget margin for the sector would be large enough to fully finance the subsidized and semi contributive regimes.

Nonetheless, the health sector will effectively have enough fiscal space to finance the implementation of the universal insurance scheme if the higher expenditures (created by the additional resources) do not lead to noncompliance with the fiscal rule (i.e., do not create pressures to increase the deficit above 1% of GDP).

It should be noted that the greater health expenditures generated by higher economic growth and resources allotted to the sector (via releasing tax expenditures and/or reducing tax evasion) would have a direct impact on the overall fiscal position, i.e., reducing the surplus foreseen for 2013 from 0.4% of GDP to less than 0.2% ofGDP[10]. In sum, **the greater fiscal space does not compromise macroeconomic stability**, but the fiscal target established by the MMF would not be achieved. [11]

[10]Only the pillar associated with economic growth has a direct impact on the fiscal position. In contrast, the pillars associated with restructuring and efficiency have a neutral effect, as released resources would have a similar impact on public sector revenues and expenditures.

[11]However, this reduction in the fiscal surplus could be compensated if the Treasury obtains additional resources from an underestimation of the terms of exchange. The MMF and the Central Bank's inflation report consider a similar assumption for GDP but a one-point difference in the terms of exchange, which translates into an additional collection amounting to S/1 billion. In this case the difference in the terms of exchange would result in an additional amount of around S/. 2.2 billion (0.4%of GDP).

Table XI: Aggregate fiscal space for health: 2011-2013

Fiscal space source	Fiscal space (cumulative to 2013)	Gap coverage		Feasibility
		Public expenditures	Universal Health Insurance expenditures	
I. Macroeconomic conditions				
Millions of NS/.	931			
% of GDP	0.20	15%	33%	High
II. Resource reallocation				
Millions of NS/.	436 - 871			
% of GDP	0.09 – 0.18	7-14%	15-30%	Medium
III. Creation of new resources				
Millions of NS/.	843			
% of GDP	0.12	13%	28%	Low
IV. Efficiency improvements				
Millions of NS/.	737– 1 475	12 – 23%	25 – 51%	High
% of GDP	0.19 – 0.37			
Total (excluding III)	2 104 – 3 271	33 – 52%	73– 114%	
	0.40 – 0.63			
Adjusted fiscal deficit (2013)	0.16 – 0.18			
Compliance with Fiscal Rule	YES			

FINAL REMARKS

- The analysis of the pillars considered and the MMF scenario suggest that it is possible to create a fiscal space in the next 3 years that could cover the resource gap for health insurance in a way consistent with the sector's **initial absorption capacity**.

  This would be favored by the good growth and stability prospects for the Peruvian economy in the coming years.A conservative baseline scenario is suggested for estimating the pillar associated with macroeconomic conditions. The strong increase in investment could result in faster potential GDP growth, and therefore in growth without inflationary pressures. This could provide additional resources to create an even greater fiscal space than the one considered in this document.

- Availability of these resources would not compromise fiscal sustainability, given that most of them involve a more efficient resource allocation or elimination of benefits that have not proved to meet the objectives for which they were created.

- Creating the fiscal space required to finance the universal insurance scheme calls for a strong commitment on the part of the government. A **fiscal accord on health** could be instrumental in achieving this objective.